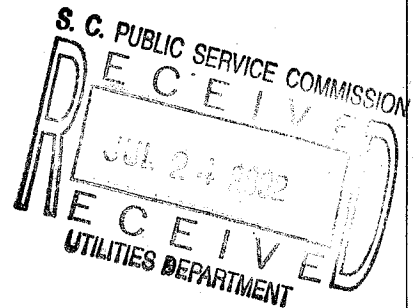


**POSTED**  
JUL 25/02

**ORIGINAL**

***Application of Moore Sewer, Inc.  
for an adjustment of rates and charges for the  
provision of sewer collection and for approval  
of certain contractual relationships***



***Docket No. 2002-104-S***

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***Testimony of  
Vivian B. Dowdy  
Audit Department***

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***Public Service Commission of South Carolina***

**TESTIMONY OF VIVIAN BROWN DOWDY****FOR****THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA****DOCKET NO. 2002-104-S****IN RE: MOORE SEWER, INC.**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND  
OCCUPATION.**

**A. My name is Vivian Brown Dowdy. My business address is 101  
Executive Center Drive, Columbia, South Carolina. I am an Auditor  
for the Public Service Commission of South Carolina.**

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR  
BUSINESS EXPERIENCE.**

**A. I received a B. S. Degree with a major in Accounting from South  
Carolina State University in 1977 and a M. A. in Business and  
Management from Webster University in 1994. I have been  
employed by the Public Service Commission since January 1980. I  
have participated in rate cases involving telephone, gas, and water  
and wastewater utilities and have testified numerous times before  
this Commission.**

1  
2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING MOORE**  
3 **SEWER, INC?**

4 **A. The purpose of my testimony is to set forth, in summary form, the**  
5 **Staff's findings and recommendations resulting from our review of**  
6 **the Company's application in this docket. These findings and**  
7 **recommendations are set forth below in my testimony.**

8 **Q. AS A RESULT OF YOUR REVIEW, DID YOU ALSO PREPARE SEVERAL**  
9 **EXHIBITS WHICH ARE ATTACHED TO YOUR TESTIMONY?**

10 **A. Yes, I did.**

11 **Q. PLEASE EXPLAIN THE REASON MOORE SEWER, INC. IS**  
12 **REQUESTING A COLLECTION ONLY RATE?**

13 **A. Moore Sewer, Inc. is no longer treating the sewage it collects from**  
14 **its customers. Treatment is now being performed by Spartanburg**  
15 **Sanitary Sewer District. However, the Company's rates were**  
16 **designed to cover both treatment and collection of sewage. The**  
17 **Company is requesting a collection only rate be established.**

18 **Q. WOULD YOU EXPLAIN THE FORMAT OF EXHIBIT A?**

19 **A. Column (1) shows the Company's per book balances as of**  
20 **December 31, 2001. Staff verified the application's balances to the**  
21 **Company's books and records.**

1 Column (2) shows the Staff's accounting adjustments to allocate  
2 expenses for the collection portion of the company's sewer service  
3 charge. The percentages recommended by the Company were  
4 reviewed by the Staff's Utilities Department.

5 Column (3) shows as adjusted income for return after revenues are  
6 adjusted and are allocated to the collection portion of the  
7 Company's sewer service charge.

8 Column (4) shows the revenue and related adjustments needed by  
9 the Company to earn the latest approved operating margin of  
10 24.51%. The Company is not requesting a rate increase in this  
11 case.

12 Column (5) shows the computation, after accounting and pro forma  
13 adjustments and revenue requirements, for an operating margin of  
14 24.51%.

15 Q. WOULD YOU PLEASE EXPLAIN THE ACCOUNTING AND PRO FORMA  
16 ADJUSTMENTS IN EXHIBIT A1?

17 A. Yes. Staff has made accounting adjustments to allocate expenses  
18 for the collection portion of the Company's sewer service charge.

19 Adjustment 1. The Staff proposes to annualize revenue for the year  
20 ended December 31, 2001. This amount includes revenue the  
21 Company did not collect from the Madera subdivision since

1       **September 2001. The Company stopped collecting rates from**  
2       **Madera subdivision when they stopped treating its wastewater.**  
3       **Staff included an increase to Gross Receipt taxes for the effect of**  
4       **the revenue annualization.**

5       **Adjustment 2. The Staff proposes to eliminate expenses associated**  
6       **with the treatment of sewage. Sewage treatment will no longer be**  
7       **performed by the Company. The Audit Staff eliminated expenses**  
8       **associated with sewage treatment using allocation percentages**  
9       **approved by the Utilities Department. Audit Exhibit A-3 provides a**  
10      **schedule of such allocated expenses.**

11      **Adjustment 3. The Staff proposes to adjust depreciation expenses**  
12      **to eliminate expenses associated with the closing of the treatment**  
13      **plant. Depreciation rates and percentages allocated to collection**  
14      **plant were recommended by the Utilities Department.**

15      **Adjustment 4. The Staff proposes to adjust income taxes for**  
16      **accounting and pro forma adjustments. Staff used the current**  
17      **corporate tax rate of 5% for state taxes and 15% for federal taxes.**

18      **Adjustment 5. The Staff proposes to show the amount of revenue**  
19      **needed to generate the approved operating margin of 24.51% as**  
20      **contained in the Company's last rate case.**

1 **Q. WHAT ARE THE REMAINING EXHIBITS CONTAINED IN THE**  
2 **REPORT?**

3 **A. Exhibit A-2 details Staff's calculation of Customer Growth.**

4 **Exhibit A-3 shows the allocation of the Company's expenses for the**  
5 **collection portion of the sewer service charge.**

6 **Exhibit A-4 shows the allocation of the Company's expenses for**  
7 **depreciation associated with the closing of the treatment plants.**

8 **Q. IS THERE OTHER REVELANT INFORMATION NOT INCLUDED IN**  
9 **STAFF'S EXHIBIT A?**

10 **A. Yes. The Company paid \$46,087 in impact fees to tie on to the**  
11 **Spartanburg Sanitary Sewer District. If allowed to recover these**  
12 **costs over a forty year period, the Company would be allowed an**  
13 **additional \$1,152 in depreciation expenses. The Company also has**  
14 **incurred approximately \$52,000 expenses for the closing of its**  
15 **treatment plants and has indicated to Staff there may be additional**  
16 **closing costs. The Commission has allowed, in previous cases, the**  
17 **recovery of extraordinary retirement expenses over a 3 to 5 year**  
18 **period. None of the above mentioned expenses are included in the**  
19 **calculation of the Company's Net Income for Return on Audit**  
20 **Exhibit A. The Company has not proposed recovery of these costs**  
21 **in this case.**

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**

3

4

5

6

Audit Exhibit A

Moore Sewer, Inc.  
Operating Experience and Operating Margin  
Test Year Ended December 31, 2001

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Revenue Deficiency \$	(5) Pro Forma Operations \$
<u>Operating Revenue</u>					
Service Revenue	108,620	20,806 (1)	129,426	5,749 (7)	135,175
<u>Total Operating Revenue</u>	108,620	20,806	129,426	5,749	135,175
<u>Operating &amp; Maintenance Expenses</u>	89,941	(13,454) (2)	76,487	0	76,487
General & Administrative Expenses	7,860	0 (3)	7,860	0	7,860
Depreciation & Amortization Expenses	5,404	(1,153) (4)	4,251	0	4,251
Taxes Other Than Income	1,801	247 (5)	2,048	68 (8)	2,116
Income Taxes	0	6,806 (6)	6,806	1,093 (9)	7,899
<u>Total Operating Expenses</u>	105,006	(7,554)	97,452	1,161	98,613
<u>Net Operating Income</u>	3,614	28,360	31,974	4,588	36,562
Customer Growth (Exhibit A-2)	0	0	0	0	0
<u>Net Income for Return</u>	3,614	28,360	31,974	4,588	36,562
 <u>Operating Margin (A)</u>	 <u>0.17%</u>		 <u>22.06%</u>		 <u>24.51%</u>

(A) Operating Margin includes Interest Expense of \$3,426.



Moore Sewer, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
Test Year Ended December 31, 2001

Adj. #	REVENUE AND EXPENSES Description	(1)	(2)	(3)	(4)	(5)	(6)
		Operating Revenues	O & M Expenses	G & A Expenses	Depreciation & Amortization Expenses	Taxes Other Than Income	Income Taxes
		\$	\$	\$	\$	\$	\$
(1)	The Staff proposes to annualize revenue for the year ended December 31, 2001. This amount includes revenue the Company did not collect from the Madera subdivision since August 2001. Staff's adjustment includes an increase for Gross Receipt taxes. (U & A)						
	Per Staff	20,806				247	
	Per Company	-0-				-0-	
(2)	The Staff proposes to adjust Company expenses to eliminate expenses associated with the treatment of sewage. Sewage treatment will no longer be performed by the Company. The percentages allocated to collection expenses were verified by the Utilities Department. See Exhibit A-2. (U & A)						
	Per Staff		(13,454)				
	Per Company		-0-				

Moore Sewer, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
Test Year Ended December 31, 2001

REVENUE AND EXPENSES		(1)	(2)	(3)	(4)	(5)	(6)
Adj. #	Description	Operating Revenues	O & M Expenses	G & A Expenses	Depreciation & Amortization Expenses	Taxes Other Than Income	Income Taxes
		\$	\$	\$	\$	\$	\$
(3)	The Staff proposes to adjust depreciation expense to eliminate expenses associated with the closing of the treatment plant. Depreciation rates and percentages allocated to collection plant were recommended by the Utilities Department. See Exhibit A-3. (U & A) Per Staff Per Company				(1,153) -0-		
(4)	The Staff proposes to adjust taxes for accounting and pro forma adjustments. Staff used the current corporate tax rate of 5% for state taxes and 15% for federal taxes. (A) Per Staff Per Company						6,806 -0-
Total Accounting and Pro Forma Adjustments		20,806	(13,454)	0	(1,153)	247	6,806
Per Staff							
Per Company		-0-	-0-	-0-	-0-	-0-	-0-

Moore Sewer, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
Test Year Ended December 31, 2001

Adj. #	PROPOSED REVENUE Description	(7)		(8)		(9)	
		Operating Revenues	\$	Taxes Other Than Income	\$	Income Taxes	\$
(5)	Staff proposes to show the amount of revenue needed to generate the approved operating margin of 24.51% as contained in the Company's last rate case, Docket No. 1999-397-S. Staff's adjustment includes the computation of gross receipts taxes and income taxes. (A)						
	Per Staff	5,749		68		1,093	
	Per Company	-0-		-0-		-0-	
<hr/>							
	Total Accounting and Pro Forma Adjustments						
	Per Staff	5,749		68		1,093	
	Per Company	-0-		-0-		-0-	

(A) - Adjustment is the responsibility of the Audit Department witness.  
(U) - Adjustment is the responsibility of the Utilities Department witness.

Audit Exhibit A-2

Moore Sewer, Inc.  
Customer Growth Computation  
Test Year Ended December 31, 2001

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Revenue Deficiency	(5) Pro Forma Operations
	\$	\$	\$	\$	\$
Net Operating Income	3,614	28,360	31,974	4,588	36,562
Growth Factor	0.00%	0.00%	0.00%	0.00%	0.00%
Customer Growth	0	0	0	0	0

Number of Customers

Beginning	<u>451</u>
Ending	<u>451</u>
Average	<u>451</u>

Customer Growth Formula

Ending - Average =	451 - 451 =	0 =	<u>0.00%</u>
Average	451	451	

Moore Sewer, Inc.  
Allocation of Expenses  
Test Year Ended December 31, 2001

	(1) Per Books	(2) % Allocated to Collection*	(3) Exp. Allocated to Collection	(4) Adjustment
	\$	\$	\$	\$
<b><u>OPERATING &amp; MAINTENANCE</u></b>				
Purchased Power	10,162	25%	2,541	
Fuel for Power Production	327	100%	327	
Material & Supplies	9,796	82%	8,033	
Contractual Services - Professional	31,017	100%	31,017	
Contractual Services - Testing	1,066	55%	586	
Contractual Services - Other	7,039	49%	3,449	
Rents	23,591	100%	23,591	
Transportation Expenses	1,963	100%	1,963	
Insurance Expense	4,672	100%	4,672	
Utilities - Non-Electric	177	100%	177	
Livestock Expense	131	100%	131	
<b><u>Total Operating and Maintenance</u></b>	<b>89,941</b>		<b>76,487</b>	<b><u>(13,454)</u></b>
<b><u>GENERAL &amp; ADMINISTRATIVE</u></b>				
Office Expense	1,723	100%	1,723	
Postage	1,095	100%	1,095	
Contractual Services - Billing	2,593	100%	2,593	
Telephone	2,215	100%	2,215	
Miscellaneous Expense	234	100%	234	
<b><u>Total General and Administrative</u></b>	<b>7,860</b>		<b>7,860</b>	<b><u>0</u></b>
<b><u>Depreciation &amp; Amortization (A)</u></b>	<b>5,404</b>	<b>Exhibit A-3</b>	<b>4,251</b>	<b><u>(1,153)</u></b>
<b><u>Taxes Other Than Income</u></b>				
Transportation Taxes	319	100%	319	
Taxes Other Than Income	282	100%	282	
Taxes and Licenses	1,200	100%	1,200	
<b><u>Total Taxes Other Than Income</u></b>	<b>1,801</b>		<b>1,801</b>	<b><u>0</u></b>
<b><u>Total Operating Expenses</u></b>	<b><u>105,006</u></b>		<b><u>90,399</u></b>	

\* Percentages recommended by the Utilities Department.

(A) See Audit Exhibit A-3 for calculation.

Moore Sewer, Inc.  
Depreciation Adjustment  
For Year Ended December 31, 2001

	(1)	(2)	(3)	(4)	(5)	(6)
			Plant			
Description	Per Books	% Allocated to Collection*	Allocated to Collection	Service Life	Rates**	Annualized Depreciation
	\$	%	\$		%	\$
Structures & Improvements	78,497	100%	78,497	30	3.30%	2,590
Impact Fees	46,087	0%	0	40	2.50%	0
Collection Sewer - Gravity	4,129	100%	4,129	40	2.50%	103
Flow Measuring Devices	2,733	0%	0	40	2.50%	0
Treatment & Disposal Equip	4,443	0%	0	25	4.00%	0
Other Plant & Misc. Equip	6,346	100%	6,346	10	10.00%	635
Office Furniture & Equip	1,595	100%	1,595	5	20.00%	319
Tools, Shop & Garage Equip	2,567	100%	2,567	5	20.00%	514
Power Operated Equip	<u>901</u>	<u>100%</u>	<u>901</u>	10	10.00%	<u>90</u>
	<u>147,298</u>		<u>94,035</u>			4,251
Per Book Depreciation Expense						<u>5,404</u>
Adjustment to Depreciation Expense						<u>(1,153)</u>

\* Percentages recommended by the Utilities Department.

\*\* Rates recommended by the Utilities Department.